

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
September 16, 2006 Through June 29, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
September 16, 2006 Through June 29, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Lawrence County Sheriff for the period September 16, 2006 through June 29, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,619,875 for the districts for 2006 taxes, retaining commissions of \$190,412 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,423,124 to the districts for 2006 taxes. Taxes of \$1,528 are due to the districts from the Sheriff and refunds of \$566 are due to the Sheriff from the taxing districts.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 2, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$360,579

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steve Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Compton, Lawrence County Judge/Executive

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the Lawrence County Sheriff's Settlement - 2006 Taxes for the period September 16, 2006 through June 29, 2007. This tax settlement is the responsibility of the Lawrence County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lawrence County Sheriff's taxes charged, credited, and paid for the period September 16, 2006 through June 29, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steve Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Compton, Lawrence County Judge/Executive

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

September 20, 2007

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
September 16, 2006 Through June 29, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 619,988	\$ 686,133	\$ 1,513,925	\$ 461,387
Tangible Personal Property	86,882	98,702	212,154	192,409
Fire Protection	5,605			
Increases Through Exonerations	286	260	698	213
Franchise Taxes	171,782	186,453	419,445	
Additional Billings	338	334	817	249
Oil and Gas Property Taxes	31,375	28,511	76,614	23,348
Penalties	7,896	8,984	19,150	6,534
Adjusted to Sheriff's Receipt	<u>(383)</u>	<u>(82)</u>	<u>(664)</u>	<u>(252)</u>
Gross Chargeable to Sheriff	<u>923,769</u>	<u>1,009,295</u>	<u>2,242,139</u>	<u>683,888</u>
<u>Credits</u>				
Exonerations	5,683	6,799	13,830	4,215
Discounts	10,395	11,218	25,201	9,130
Delinquents:				
Real Estate	23,869	30,079	58,053	17,692
Tangible Personal Property	3,220	3,659	7,864	8,135
Uncollected Franchise Taxes	<u>38</u>	<u>43</u>	<u>93</u>	
Total Credits	<u>43,205</u>	<u>51,798</u>	<u>105,041</u>	<u>39,172</u>
Taxes Collected	880,564	957,497	2,137,098	644,716
Less: Commissions *	<u>37,711</u>	<u>39,529</u>	<u>85,484</u>	<u>27,688</u>
Taxes Due	842,853	917,968	2,051,614	617,028
Taxes Paid	842,056	915,502	2,049,047	616,519
Refunds (Current and Prior Year)	<u>1,048</u>	<u>966</u>	<u>2,567</u>	<u>796</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (251)</u>	<u>\$ 1,500</u>	<u>\$ 0</u>	<u>\$ (287)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period September 16, 2006 Through June 29, 2007
(Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	2,436,945
4% on \$	2,137,098
1% on \$	35,832

** Special Taxing Districts:

Library District	\$	93
Soil District		270
Fire Protection District		(28)
Fire and Rescue District		<u>1,165</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>1,500</u></u>
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LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

June 29, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
June 29, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On November 2, 2006, \$360,579 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$360,579

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 16, 2006 through April 27, 2007.

B. Oil and Gas Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 20, 2006 through June 29, 2007.

Note 4. Interest Income

The Lawrence County Sheriff earned \$286 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Lawrence County Sheriff collected \$34,865 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lawrence County Sheriff collected \$1,323 of advertising costs and \$3,975 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

LAWRENCE COUNTY
 NOTES TO FINANCIAL STATEMENT
 June 29, 2007
 (Continued)

Note 7. Tax Account Surplus

The Sheriff's tax account as of June 29, 2007 consisted of the following:

	<u>Balance</u>
2002 Tax Year Surplus	\$ 6,140
2003 Tax Year Surplus	961
2004 Tax Year Surplus	1,222
2005 Tax Year Surplus	1,343
2006 Tax Year Surplus	1,877
Interest Earned	<u>191</u>
	<u>\$ 11,734</u>

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Compton, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lawrence County Sheriff's Settlement - 2006 Taxes for the period September 16, 2006 through June 29, 2007, and have issued our report thereon dated September 20, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lawrence County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lawrence County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County Sheriff's Settlement - 2006 Taxes for the period September 16, 2006 through June 29, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards.

The Lawrence County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lawrence County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 20, 2007

COMMENT AND RECOMMENDATION

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period September 16, 2006 Through June 29, 2007

INTERNAL CONTROL – MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. The bookkeeper collects and deposits tax receipts, records all transactions, prepares the monthly report, and reconciles the bank account. By not segregating these duties there is an increased risk of misappropriation of assets either by error or fraud. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. If these duties cannot be segregated, the Sheriff should perform the following compensating controls to help offset this weakness:

- Recount and make the daily deposits.
- Agree daily tax collection total to the receipts ledger and deposit slip.
- Agree monthly tax reports to receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation.

Sheriff's Response: Okay.

